



Arizona State Senate Issue Brief

September 15, 2008

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

ARIZONA'S STATE LOTTERY

AGENCY MISSION AND HISTORY

The State Lottery (Lottery) was established as a result of an initiative petition and the approval of the voters in the November 1980 general election. The Lottery is responsible for administering state-sanctioned games of chance to generate monies for the state, subject to sufficient revenue. The Lottery offers games in both an on-line and instant ticket format. On-line means the numbers are selected on a machine, as opposed to scratching a ticket.

The Arizona State Lottery Commission was also established in 1980 to oversee the Lottery, in order to produce the maximum amount of net revenue consonant with the dignity of the state.

ORGANIZATION

An Executive Director is appointed by the Governor, subject to Senate confirmation, to administer the Lottery.

The Arizona State Lottery Commission (Commission) consists of five members appointed by the Governor to five-year terms, subject to Senate confirmation. The members of the Commission represent law enforcement, a certified public accountant, marketing or advertising, and convenience store or grocery retailing. Commission members are eligible to receive compensation of not more than \$30 per day. The Commission must meet at least quarterly to make recommendations and set policy, receive reports from the Executive Director and transact other business properly brought before the Commission.

The Lottery receives monies annually from the State Lottery Fund, which consists of all revenues received from the sale of lottery tickets or shares, and licensing fees for agents to sell lottery tickets or shares. This includes the sale of multistate games like PowerBall. The Lottery is restricted by statute to spending no more than 18.5 percent of its revenues on administrative expenses. Administrative expenditures are subject to legislative appropriation.

According to statute, at least 50 percent of revenues must be dedicated to payment of prizes to the holders of winning tickets or shares.

Statute contains a funding distribution formula that allocates monies to 12 beneficiaries. The beneficiaries are the Local

Transportation Assistance Fund (LTAF), the County Assistance Fund, the Heritage Fund, the Commerce and Economic Development Commission Fund, the LTAF specifically for mass transit uses (LTAF II), various health and welfare programs, homeless shelters, the University Capital Improvement Fund, the Water Supply Development Fund, the Community Protection Initiative Fund and the state General Fund. A portion of unclaimed prizes benefits the Court Appointed Special Advocate Program.

In November 2002, the Legislature asked voters to decide if the Lottery should be extended for an additional ten years. Citizens voted 73 percent in favor of keeping the Lottery operating through July 1, 2013.

UNIVERSITY DEBT FINANCING

The FY 2008-2009 Education Budget Reconciliation Bill (Laws 2008, Chapter 287) authorizes state universities to enter into \$1 billion of capital lease-purchase projects. In an effort to generate additional sales as a revenue source for the debt service associated with these projects, several changes were made to the Lottery distribution formula. The new revenues are to be used to pay for 80 percent of these debt service payments. Changes enacted by this legislation included the:

- removal of the percentage distribution cap of revenues available to Lottery beneficiaries and the addition of new university construction debt service contributions.
- elimination of the relationship between certain Lottery tickets and their beneficiaries. Instead revenues are deposited into the State Lottery Fund for distribution.
- elimination of the four percent cap on the monies available for Lottery advertising.
- an appropriation of \$750,000 for performance incentive pay for Lottery staff.

The Lottery was also directed to implement administrative changes to increase sales,

including offering higher prizes, increasing game payouts and increasing the utilization of certain machines.

According to the Joint Legislative Budget Committee, actual Lottery sales for FY 2007-2008 approach \$473 million dollars. With the revisions, the Commission estimates over a \$100 million increase in FY 2008-2009 sales with total revenues approaching \$576 million.

ADDITIONAL RESOURCES

- Arizona Lottery
4740 E. University Dr.
Phoenix, AZ 85034
480-921-4400
www.arizonalottery.com
- Arizona State Lottery Annual Report
- "Arizona State Lottery Commission," Office of the Auditor General, October 1997, Report No. 97-15
- Arizona State Lottery and Arizona State Lottery Commission Statutes: Arizona Revised Statutes, Title 5, Chapter 5
- Publicity Pamphlet for November 5, 2002 General Election, prepared by the Arizona Secretary of State
www.azsos.gov